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December 13, 2010

AGENDA ITEM 7c

TO: MEMBERS OF THE INVESTMENT COMMITTEE

- I. SUBJECT:** Master Custody Services RFP
- II. PROGRAM:** Total Fund
- III. RECOMMENDATION:** Information
- IV. ANALYSIS:**

This agenda item provides an update on the Master Custody Services Request for Proposal (RFP) process.

Background

CalPERS plans to issue a contract for Master Custody services for three years, with two additional one year options for renewal. State Street Bank currently performs master custody services through a contract in place until June 30, 2011.

Current Status

Since the last update provided to the Investment Committee on October 18, 2010, the following key RFP milestones have occurred:

- | | |
|-------------------|--|
| October 29, 2010 | Completed vendor interviews. Finalists were determined using the consensus scoring method. |
| November 11, 2010 | Conducted vendor reference checks. All references checked were satisfactory. |
| November 17, 2010 | Completed finalist onsite due diligence. |

November 19, 2010 Finalists were determined using the consensus scoring method and will continue to second round interviews.

Information Obtained

The CalPERS evaluation team is very pleased with the information obtained throughout the RFP process. Each finalist has demonstrated that they meet CalPERS requirements for transparency in pricing and reporting. Each finalist has also demonstrated their ability to transition CalPERS to our required enhanced service model that includes the following new services:

- Trade date based accounting reconciled daily for all CalPERS investment portfolios
- Look through capability for all unitized portfolios
- Comprehensive Affiliated Program Division custody services
- Enhanced performance attribution capabilities

Next Steps

Pursuant to delegation EXEC-95-101, in conjunction with delegation INVO-OPS-10-02, staff has delegated authority to approve and execute investment related contracts, including master custody services.

The next step in the RFP process is that staff will conduct second round interviews in December 2010. Final selection will be made using the consensus scoring method and will be communicated to the Investment Committee as soon as possible following completion of scoring.

If a firm other than the incumbent is selected, the contract start date will be April 1, 2011 to begin the transition process. Staff estimates the transition period could take up to 12 months and depending on the transition timeline, staff may need to extend the incumbent's contract to cover this period. If the incumbent is selected, the contract will start on July 1, 2011.

V. STRATEGIC PLAN:

These activities support the following CalPERS Strategic Plan goals:

Goal I. Exercise global leadership to ensure the sustainability of CalPERS pension and health benefit systems.

Goal VIII. Manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits, and second, to minimize and stabilize contributions.

VI. RESULTS/COSTS:

Funding for this contract is contained within the existing Continuous Appropriation budget.

However, a transition would require a significant commitment of staff resources as well as the potential for the augmentation of support from contracted resources.

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